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# FEDERAL HOUSING FINANCE AGENCY



## NEWS RELEASE

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**Contact:** Corinne Russell (202) 414-6921  
Stefanie Johnson (202) 414-6376

### **Maximum Conforming Loan Limits to Remain Unchanged in All Counties But One in 2012**

**Washington, DC** – The Federal Housing Finance Agency (FHFA) today announced that under terms set forth in the Housing and Economic Recovery Act of 2008 (HERA), the maximum conforming loan limits for mortgages acquired by Fannie Mae and Freddie Mac in 2012 will remain at existing levels except in Fairfield County, Connecticut, where it will increase. A listing of the 2012 maximum conforming loan limits for all counties and county-equivalent areas in the country can be found [here](#). The maximum conforming loan limits for one-unit properties, which generally have applied to loans originated since Oct. 1, 2011, are \$417,000 in most locations, but are as high as \$625,500 in certain high-cost areas in the contiguous United States. For loans originated prior to October 2011, the maximum loan limit was as high as \$729,750 in the contiguous U.S. However, that higher “ceiling” was permitted under legislation that no longer applies to newly-originated loans. The 2012 loan limits are set under the permanent formula established under HERA.

Under the HERA formula, the 2012 maximum loan limit for one-unit properties in Fairfield County, Connecticut will increase by \$26,450 from \$575,000 to \$601,450. The increase results from a rise in the local median home value, which is a key part of the HERA formula for determining local loan limits. While other counties also saw increases in home prices, Fairfield County, Connecticut was the only one for which the increase ultimately produced higher loan limits after other HERA terms (e.g., the statutory ceiling and floor on loan limits) were taken into account.

A detailed description of how the 2012 loan limits were determined can be found in the attached addendum. Questions regarding loan limits can be sent to [LoanLimitQuestions@fhfa.gov](mailto:LoanLimitQuestions@fhfa.gov).

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*The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$5.7 trillion in funding for the U.S. mortgage markets and financial institutions.*

## **Addendum**

### *Baseline National Conforming Loan Limit*

In determining 2012 loan limits under the terms of the Housing and Economic Recovery Act, or HERA, FHFA did not change the baseline maximum conforming loan limit for the United States. The baseline limit, \$417,000 for one-unit properties in the contiguous U.S., was left unchanged based on declines in FHFA's monthly and quarterly house price indexes. HERA requires that the baseline limit be adjusted each year to reflect changes in the national average home price, but prohibits declines in the limit. If average home prices decline, then the baseline loan limit is to remain the same. In setting HERA limits for 2009, 2010, and 2011, FHFA found that the national average home price declined over preceding years. As a result, the national loan limit was left unchanged. This year, the monthly and quarterly house price index (HPI) series produced by FHFA show further national price declines and thus the baseline loan limit is again unchanged.

While the FHFA HPI has been used this year and in preceding years for assessing the national average price change, pursuant to terms set forth under HERA,<sup>1</sup> FHFA has evaluated a number of alternatives. FHFA plans to publish a Federal Register notice in the coming months that will proffer a specific methodology for measuring price changes for loan limit adjustment in the future. The notice, which will detail the methodology and also describe an alternative approach, will invite public comment.

It should be noted that neither of the methodologies described in the notice, nor any other reliable house price metric would produce different loan limits for 2012 than those announced here. Alternative metrics show price declines over the latest year and, importantly, indicate very large cumulative price declines since home prices peaked several years ago. The cumulative declines are important because HERA will only allow the baseline loan limit to increase when home prices have returned to levels that prevailed before recent declines. Home price statistics measured using any reliable methodology are far below those levels.

### *Loan Limits in High-Cost Areas*

HERA provisions set loan limits as a function of local area median home values. Where 115 percent of the local median home value exceeds the baseline loan limit (\$417,000 in the contiguous U.S.), the local loan limit is set at 115 percent of the median home value. The local limit cannot, however, be more than 50 percent above the baseline limit. In the contiguous U.S., the highest-possible local area loan limit for one-unit properties is thus \$625,500 (150 percent of \$417,000).

Consistent with FHFA's prior practice, in determining the 2012 HERA limits, FHFA used median home values estimated by the Federal Housing Administration (FHA) of the Department of Housing and Urban Development (HUD). FHA has calculated those median values for the purpose of determining its own lending limits. Once the FHA loan limits are announced, FHA will allow a 30-day appeals period for appellants to submit data suggesting a potentially higher median home value for a given area. If FHA changes its median price

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<sup>1</sup> See Section 1124(d) of HERA.

estimates as a result of any appeals, and if those changes would impact the FHFA conforming loan limits, FHFA will adjust the conforming loan limits and announce the resulting changes.

In determining the 2012 HERA loan limits in high-cost areas, FHFA continued its policy of not permitting declines relative to the prior HERA limits. While HERA did not explicitly prohibit declines in high-cost area loan limits, that approach is consistent with the statutory procedure for responding to changes in prices on a national basis. Subject to this policy, the 2012 HERA limits reflect the higher of the limits directly calculated for 2012 and HERA loan limits determined for 2009, 2010, and 2011.

As noted in the news release, 2012 loan limits differ from 2011 HERA limits in only one county. The fact that loan limits did not change in other areas is a function of a number of factors, including the prohibition on HERA loan limit declines in high-cost areas. Also important is the \$417,000 floor on loan limits; in most areas of the country, 115 percent of the local median home price is far below \$417,000. In many areas, even significant increases in median home values would not produce loan limits that exceed the \$417,000 floor.

#### *Loan Limits for Multi-Unit Properties*

Because loan limits for one-unit properties generally have been left unchanged and loan limits in multi-unit properties are simply multiples of the one-unit limits, loan limits for multi-unit properties have been left unchanged in all counties except Fairfield County, Connecticut (where they have been increased). For most areas in the contiguous U.S., loan limits are \$533,850, \$645,300, and \$801,950 for two-, three- and four-unit homes respectively.

#### *Alaska, Hawaii, Guam and the U.S. Virgin Islands*

As with the rest of the country (excepting Fairfield County, Connecticut), maximum conforming loan limits in these areas will remain at 2011 HERA levels in 2012. The baseline loan limit in these areas is statutorily set at 50 percent above the baseline limit for the contiguous U.S.

#### *Acquisitions of Loans Originated in Prior Years*

Under a series of laws enacted over the past several years, including the Economic Stimulus Act of 2008, the American Recovery and Reinvestment Act of 2009, Public Law 111-88, and Public Law 111-242, higher conforming loan limits will apply to Fannie Mae and Freddie Mac acquisitions of certain seasoned mortgages in 2012. Loans originated between July 1, 2007 and Sept. 30, 2011 and acquired in 2012 will be subject to previously-announced limits determined under those laws. The applicable loan limits for such seasoned loans are as high as \$729,750 for one-unit properties in the contiguous U.S.